

Auditing Procedures Report

Issued under P.A. 2 of 1965, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Hart Area Public Library		County Oceana	
Fiscal Year End March 31, 2006		Opinion Date July 28, 2006		Date Audit Report Submitted to State August 7, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)**
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number (231) 924-6890		
Street Address 711 West Main Street		City Fremont	State MI	Zip 49412
Authorizing CPA Signature 		Printed Name Jodi DeKuiper, CPA		License Number 1101021180

**HART AREA PUBLIC LIBRARY
OCEANA COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

MARCH 31, 2006

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HART AREA PUBLIC LIBRARY

Library Board

<u>Appointed Official</u>	<u>Position</u>
Nancy Sterk	President
Valerie Johnson	Vice-President
Todd Metzler	Treasurer
Kay Butcher	Secretary
Sue Powers	Trustee
Michael VanBergen	Trustee
Todd Comstock	Trustee
Douglas Springstead	Trustee

Administration

Joan T. Lundborg	Library Director
------------------	------------------



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Library Board
Hart Area Public Library
Hart, MI 49420

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Hart Area Public Library as of and for the year ended March 31, 2006 as listed in the accompanying table of contents. These financial statements are the responsibility of the Hart Area Public Library Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hart Area Public Library as of March 31, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit is conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Hart Area Public Library. This information has been subjected to procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Hart Area Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate
Hendon & Slate, P.C.
Certified Public Accountants
July 28, 2006

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HART AREA PUBLIC LIBRARY
Management's Discussion and Analysis (MD&A)
March 31, 2006

Using this Annual Report

This annual report consists of three parts- management's discussion and analysis (this Section, and the basic financial statements, and required supplementary information. The Basic Financial Statements include information that presents two different views of the Library:

- D Notes A through H of the financial statements include information on the Library's General Fund under the modified accrual method. These Notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- D Notes I through L of the financial statements include information required for reporting under the full-accrual method.
- D Note L of the financial statements represents adjustments necessary to convert the fund financial statements to government-wide financial statements under the full-accrual method.
- D Note L provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below provides key financial information in a condensed format for the current year and the prior year:

	<u>2006</u>	<u>2005</u>
Current Assets	\$ 521,611	\$ 500,296
Capital Assets	1,510,115	1,554,653
Total Assets	2,031,726	2,054,949
Long-Term Debt	850,000	885,000
Other Liabilities	6,838	9,587
Total Liabilities	\$ 856,838	\$ 894,587

Management's Discussion and Analysis (Continued)

Net Assets:		
Invested in Capital Assets, Net of Debt	\$ 660,115	\$ 669,653
Restricted	62,647	33,857
Unrestricted	452,126	456,852
Total Net Assets	<u>\$ 1,174,888</u>	<u>\$ 1,160,362</u>
Revenue:		
Property Taxes	\$ 211,537	\$ 190,046
State Sources	9,810	10,468
Penal Fines	57,795	58,448
Other	63,396	43,118
Total Revenue	<u>342,538</u>	<u>302,080</u>
Expenses- Library Services	<u>328,012</u>	<u>302,572</u>
Changes in Net Assets	<u>\$ 14,526</u>	<u>\$ (492)</u>

The Library as a Whole

Our analysis of the Library's major fund is included in Pages 6 and 7 in the first column of the respective statements. The fund column provides detailed information about the most significant fund - not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund increased during the year by \$73,739. Cash increased by \$67,378 due to the increase in the millage and lower than budgeted salaries and capital outlay expenditures. The increase exceeded budget expectations.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in the acquisitions.

The increase in the budgeted amount for acquisitions was the result of unexpected grant funds received during the year.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had over \$1.9 million invested in building, furniture and equipment, computers, and books and materials. The Library added over \$39,000 in new collections items consisting of new books and periodicals, various audio/visual materials, and the music collections, as well as nearly \$12,000 in building improvements, over \$1,200 in computers and equipment.

Management's Discussion and Analysis (Continued)

No debt was issued during the fiscal year. The Library's indebtedness totaled \$ 850,000 at March 31, 2006.

Economic Factors and Next Year's Budgets and Millage Rates

The original Millage authorized for the library operations was 2 mills per thousand dollars of taxable value. After adjustment for the Headlee rollback, the actual 2005 millage rate is 1.9578 mills.

The Library has budgeted for 2006-2007 with the expectation that donations would be significantly less than 2005-2006. The reduction in revenues has been offset by the reduction in Building and Additions expenditures. The Library is concerned about decreasing revenues from Penal Fines and State Aid.

HART AREA PUBLIC LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets
March 31, 2006

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
Assets			
Cash	\$ 437,713	\$ -	\$ 437,713
Due From Other Governmental Units	31,622	-	31,622
Pledges Receivable (Net of Allowance for Doubtful Accounts)	-	52,276	52,276
Capital Assets, Net of Accumulated Depreciation	-	1,510,115	1,510,115
Total Assets	<u>\$ 469,335</u>	<u>1,562,391</u>	<u>2,031,726</u>
Liabilities and Fund Equity			
Liabilities			
Accounts Payable	\$ 6,838	\$ -	\$ 6,838
Long-Term Liabilities:			
Capital Lease, Due Within One Year	-	35,000	35,000
Capital Lease, Due After One Year	-	815,000	815,000
Total Liabilities	<u>6,838</u>	<u>850,000</u>	<u>856,838</u>
Fund Balance/Net Assets			
Fund Balances			
Unreserved, Undesignated	373,179	(373,179)	-
Unreserved, Designated	26,671	(26,671)	-
Reserved	62,647	(62,647)	-
Total Fund Balances	<u>462,497</u>	<u>(462,497)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 469,335</u>		
Net Assets:			
Invested in Capital Assets, Net of Related Debt		660,115	660,115
Unrestricted		452,126	452,126
Restricted		62,647	62,647
Total Net Assets		<u>\$ 1,174,888</u>	<u>\$ 1,174,888</u>

*Notes to the Financial Statements provide the details for main components of the adjustments

The Notes to the Financial Statements are in integral part of this statement.

HART AREA PUBLIC LIBRARY

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities March 31, 2006

	General Fund	Adjustments*	Statement of Activities
Revenue			
Local Sources			
Taxes	\$ 211,537	\$ -	\$ 211,537
Contract Fees	20,354	-	20,354
Penal Fines	57,795	-	57,795
Interest	7,679	-	7,679
Fines	4,382	-	4,382
Grants	1,500	-	1,500
Donations- Memorials	3,125	-	3,125
Building Fund	43,566	(24,675)	18,891
Refunds/Reimbursements	1,352	-	1,352
Copy Fees	2,778	-	2,778
Gain (Loss) on Sale of Assets	-	(5,595)	(5,595)
Other	8,930	-	8,930
Total Local Sources	<u>362,998</u>	<u>(30,270)</u>	<u>332,728</u>
State Sources			
State Aid	8,566	-	8,566
Shared Revenue	1,244	-	1,244
Total State Sources	<u>9,810</u>	<u>-</u>	<u>9,810</u>
Total Revenues	372,808	(30,270)	342,538
Expenditures			
Salaries and Wages	89,949	-	89,949
Payroll Taxes	9,490	-	9,490
Acquisitions - Books, Periodicals, A V & Special	39,700	(39,700)	-
Bad Debts Expense	-	25,000	25,000
Utilities	22,645	-	22,645
Repairs and Maintenance	6,116	-	6,116
Insurance	7,433	-	7,433
Supplies	8,612	-	8,612
Education	879	-	879
Tax Tribunal Refunds	49	-	49
Professional and Contracted Services	23,999	-	23,999
Printing and Publishing	622	-	622
Capital Lease - Principal	35,000	(35,000)	-
Capital Lease - Interest	38,240	-	38,240
Building and Additions	14,119	(11,960)	2,159
Equipment	2,186	(1,232)	954
Depreciation	-	91,835	91,835
Miscellaneous	30	-	30
Total Expenditures	<u>299,069</u>	<u>28,943</u>	<u>328,012</u>
Excess Revenue Over (Under) Expenditures	73,739	(59,213)	14,526
Fund Balance/Net Assets April 1	<u>388,758</u>	<u>771,604</u>	<u>1,160,362</u>
Fund Balance/Net Assets March 31	<u>\$ 462,497</u>	<u>\$ 712,391</u>	<u>\$ 1,174,888</u>

*Notes to the financial statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

HART AREA PUBLIC LIBRARY

Notes to the Financial Statements

March 31, 2006

NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hart Area Public Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

1. REPORTING ENTITY

Hart Area Public Library was organized in 1967 to provide services for the City of Hart, Hart Township, Eldridge Township, Golden Township and Wear Township. In 1977, the Library was re-established as a District Library when the City of Hart and Hart Township filed resolutions under Public Act 164. The Library's Board consists of eight board members appointed by the City of Hart and Hart Township. The Hart Area Public Library is a separate reporting entity.

The financial statements include all activities of the Library. There are no governmental department, agencies, institutions, commissions, public authorities or organizations within the Library, which is appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also using the same criteria above, the Library's financial statements include the accounts for all Library operations.

2. BASIS OF PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized

Notes to the Financial Statements (Continued)

as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Library's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

Property taxes, state shared revenue, penal fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise requirements imposed by the grantor or provider.

The Library reports on the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

3. CAPITAL ASSETS

Capital Assets are defined by the Library as assets with an initial cost of more than \$1,000. Such assets are recorded at historical cost or estimated

historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis not below 15% of the original value over the following estimated useful lives:

Building and Improvements	30 Years
Furniture and Office Equipment	10 Years
Computers and Peripheral Equipment	5 Years
Library Books and Materials	5 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND CASH EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. COMPENSATED ABSENCES (VACATION AND SICK LEAVE)

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave or vacation pay since the Library does not have a policy to pay any amounts when employees separate from service with the Library.

8. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred

charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Library by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

1. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection(2).
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments listed in subdivision (a).
5. Bankers' acceptances of United States Banks.
6. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - a. The purchase of securities on a when-issued or delayed delivery basis.
 - b. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.

Notes to the Financial Statements (Continued)

- c. The limited ability to borrow and pledge a like portion of the portfolio's or assets for temporary or emergency purposes.
- 8. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- 9. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- 10. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Library funds are held at Huntington Bank, Fifth Third Bank, West Shore Bank, and Shelby State Bank and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
General Fund		
Cash on Hand	\$ 50	\$ -
Checking-Huntington	17,709	23,019
Checking-Fifth Third	1,046	1,046
Money Market-Huntington	136,106	136,106
Money Market- Fifth Third	193,105	193,105
CD's – Huntington	5,079	5,079
CD's – West Shore Bank	61,327	61,327
CD's – Shelby State Bank	23,291	23,291
Total Deposits	<u>\$ 437,713</u>	<u>\$ 442,973</u>
FDIC Insured	\$ 108,452	\$ 113,762
Uninsured	50	-
Money Market Funds	329,211	329,211
Total Deposits	<u>\$ 437,713</u>	<u>\$ 442,973</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE C DUE FROM OTHER GOVERNMENTAL UNITS/DEFERRED REVENUE

Receivables at March 31, 2006 consisted of the following:

Oceana County	\$ 19,710
Crystal Township	800
City of Hart	9,423
Hart Township	1,689
Total Due from Other Governmental Units	<u>\$ 31,622</u>

NOTE D RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2006, the Library did not incur material over-expenditures.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budget for this budgetary fund was adopted at the line item level.

NOTE F ENDOWMENT FUND

The Community Foundation for Muskegon County holds an endowment fund which has been earmarked for Hart Area Public Library. The fund was created by a \$10,000 donation from a donor to the endowment during 2003 with subsequent donations and investment earnings. The value of this fund at March 31, 2006 was \$16,897.

NOTE G SIMPLE IRA PENSION PLAN

Description of plan – Beginning January 1, 2005, the Library began offering a Simple IRA plan through American Funds to eligible employees. To become eligible, the employee must have at least six months of employment and a minimum salary of \$5,000.

Funding Policy and Annual Cost - The obligation to contribute to and maintain the system for these employees was established by the Library's personnel policy, which does not require employees to contribute to the plan. The Library will contribute a match of up to 3%. Contributions totaling \$2,609 were made during the year ended March 31, 2006.

Notes to the Financial Statements (Continued)

NOTE H FUND EQUITY

Reserved Fund Balances – Reserves of fund equity represent portions of fund equity not appropriated for expenditure or legally segregated for specific future use.

Designated Fund Balances – Designations of equity are used to show the amounts within unreserved equity which are intended to be used for specific purposes but are not legally restricted.

The changes in the reserved and designated fund balances are as follows:

	<u>Balance</u> <u>4/1/2005</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Balance</u> <u>3/31/2006</u>
Reserved Fund Balances				
Memorials – Robinson	\$ 5,434	\$ 54	\$ -	\$ 5,488
Building Fund	28,423	42,681	13,945	57,159
Designated Fund Balances				
Capital Improvements	6,771	110	-	6,881
Stabilization	19,473	317	-	19,790
Total Reserved and Designated Fund Balances	<u>\$ 60,101</u>	<u>\$ 43,162</u>	<u>\$ 13,945</u>	<u>\$ 89,318</u>

NOTE I CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended March 31, 2006 follows:

	<u>Balance</u> <u>4/1/2004</u>	<u>Additions</u>	<u>Retire/ Reclass</u>	<u>Balance</u> <u>3/31/2005</u>
Capital Assets				
Building & Improvements	\$ 1,184,908	\$ 90,116	\$ -	\$ 1,275,024
Comp. & Peripheral Equip.	121,297	1,595	-	122,892
Furniture & Office Equip.	110,859	10,281	-	121,140
Land Improvements	-	12,120	-	12,120
Library Books & Materials	386,142	38,098	(5,600)	418,640
Totals at Historical Cost	1,803,206	152,210	(5,600)	1,949,816
Less Accumulated Depreciation for:				
Building & Improvements	-	(33,094)	-	(33,094)
Comp. & Peripheral Equip.	(51,121)	(14,111)	-	(65,232)
Furniture & Office Equip.	(2,340)	(9,635)	-	(11,975)
Land Improvements	-	(191)	-	(191)
Library Books & Materials	<u>(258,883)</u>	<u>(30,548)</u>	<u>4,760</u>	<u>(284,671)</u>
Total Accum. Deprec.	<u>(312,344)</u>	<u>(87,579)</u>	<u>4,760</u>	<u>(395,163)</u>
Capital Assets, Net	<u>\$ 1,490,862</u>	<u>\$ 64,631</u>	<u>\$ (840)</u>	<u>\$ 1,554,653</u>

Depreciation expense charged to the General Fund for the year was \$87,579.

NOTE J CHANGES IN LONG-TERM DEBT

Building Construction

The City of Hart Building Authority (“Lessee”) will construct and equip for approximately \$950,000 a building to be located on property owned by the Lessor. The City of Hart and Lessee have entered into a Full Faith and Credit general Obligation Lease Contract whereby the City will lease the facility from the Building Authority.

Capital Lease

On January 29, 2003, the City of Hart and the Hart Area Public Library entered into an agreement whereby the Hart Area Public Library agreed to sublease the facilities as described above to be used for the legitimate public purpose of providing library services to the jurisdictional boundaries of the City. The Library promises to pay semi-annual lease payments to the City in an amount at all times to provide a sum sufficient to allow the City to make the semi-annual cash rental payments to the Building Authority. The Library pledges its limited tax, full faith and credit, general obligation to the payment of the rentals pursuant to the sublease, subject to the statutory and constitutional limits on the taxing power of the Hart Area Public Library. At the end of the lease term, the building and land will revert to the District.

Outstanding Debt

A summary of the Library’s long-term debt outstanding at March 31, 2005 follows:

	Balance <u>4/1/2005</u>	Borrowings (Payments)	Balance <u>3/31/2006</u>	Due Within <u>One Year</u>
Capital Lease – due in annual installments of \$35,000 to \$70,000 through June 2022; Interest payable semiannually at 3.5% to 5.0%	\$ 885,000	\$ (35,000)	\$ 850,000	\$ 35,000
Total Long-Term Debt	<u>\$ 885,000</u>	<u>\$ (35,000)</u>	<u>\$ 850,000</u>	<u>\$ 35,000</u>

Debt Requirements

The annual requirements to amortize the debt outstanding at March 31, 2006 including both principal and interest are as follows:

31-Mar	Capital Lease- 2004 Library Building			Total
	Principal	Interest		
2007	\$ 35,000	\$ 37,015		\$ 72,015
2008	35,000	35,790		70,790
2009	40,000	34,478		74,478
2010	40,000	33,078		73,078
2011	40,000	31,628		71,628
2012-2016	230,000	131,389		361,389
2017-2021	295,000	71,293		366,293
2022-2023	135,000	6,875		141,875
Total	<u>850,000</u>	<u>381,544</u>		<u>1,231,544</u>

Notes to the Financial Statements (Continued)

Total Payments	\$1,231,544
Less: Interest	<u>381,544</u>
Principal Balance of Capital Leases	<u><u>\$ 850,000</u></u>

Interest Expense of the Library for the year ended amounted to \$ 38,240.

NOTE K PLEDGES RECEIVABLE

Pledges receivable represent amounts pledged on a specific date to be received by the Library over a period of more than one year. These funds are reported as revenues in the period received under the modified accrual method of accounting. In the government-wide financial statements, the revenue would be reported in the first year of the pledge and the receivable reduced for the amounts received each year (using the full-accrual method of accounting.)

General Public

Pledges receivable represent unconditional promises to give by donors. Current pledges receivable are expected to be collected during the next performance year. As of March 31, 2006, the expected cash receipts of pledges receivable is \$54,076.

Governmental Units

In 2004, Hart Area Public Library entered into an agreement with local townships using the Library facilities to help with the cost of the new building. Two townships agreed to pay a set amount per year for 20 years.

	<u>General Public</u>	<u>Governmental Units</u>		<u>Total</u>
		<u>Crystal</u>	<u>Weare</u>	
Balance of Promise to Give, April 1, 2005	\$ 77,301	\$ 13,600	\$ 11,050	\$ 101,951
Amount Received in 2006	<u>(23,225)</u>	<u>(800)</u>	<u>(650)</u>	<u>(24,675)</u>
Balance 2006	54,076	12,800	10,400	77,276
Less Allowance for Doubtful	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
Net Balance 2006	<u><u>\$ 29,076</u></u>	<u><u>\$ 12,800</u></u>	<u><u>\$ 10,400</u></u>	<u><u>\$ 52,276</u></u>

NOTE L RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Notes to the Financial Statements (Continued)

Total Fund Balance- Modified Accrual Basis	\$ 462,497
Amounts reported in the statement of net assets are different because:	
Pledges receivable are reported as income in the year of the pledge for full accrual reporting, net of allowance for doubtful accounts	52,276
Capital Assets are not financial resources, and are not reported in the funds, net of accumulated depreciation	1,510,115
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(850,000)</u>
Net Assets of General Fund- Full Accrual Basis	<u>\$1,174,888</u>
Net change in Fund Balances – Modified Accrual Basis	\$ 73,739
Amounts reported in the statement of activities are different because:	
Pledges received in the current year were previously reported as income for full accrual reporting.	(24,675)
Bad debt in the current year for income reported in prior year.	(25,000)
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their useful lives as depreciation:	
Library books and materials	39,700
Capital Outlay	13,192
Depreciation	(91,835)
Loss of disposal of capital assets	(5,595)
Repayments of bond principal are reported as an expenditure in the fund Statements, but not in the statement of activities (where it reduces long-term debt)	<u>35,000</u>
Change in Net Assets of General Fund – Full Accrual Basis	<u>\$ 14,526</u>

HART AREA PUBLIC LIBRARY
Required Supplementary Information
Budgetary Comparison Schedule – General Fund
For the Year Ended March 31, 2006

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$191,000	\$ 191,000	\$ 211,537	\$ 20,537
Contract Fees	18,388	18,388	21,154	2,766
Penal Fines	57,000	57,000	57,795	795
Interest	1,000	1,000	7,679	6,679
Fines	5,000	5,000	4,382	(618)
Donations- Memorials	1,000	1,000	12,143	11,143
Building Fund	40,000	40,000	42,766	2,766
Refunds/Reimbursements	1,000	1,000	1,352	352
Books Sold	500	500	-	(500)
Copy Fees	1,500	1,500	2,778	1,278
Other	-	-	1,411	1,411
Total Local Sources	<u>316,388</u>	<u>316,388</u>	<u>362,997</u>	<u>46,609</u>
State Sources				
State Aid	6,567	6,567	8,566	1,999
Shared Revenue	1,245	1,245	1,244	(1)
Total State Sources	<u>7,812</u>	<u>7,812</u>	<u>9,810</u>	<u>1,998</u>
Total Revenues	<u>324,200</u>	<u>324,200</u>	<u>372,807</u>	<u>48,607</u>
Expenditures				
Salaries & Wages	96,000	96,000	89,949	6,051
Payroll Taxes	8,000	8,000	6,882	1,118
Retirement	3,000	3,000	2,609	391
Acquisitions – Books	23,000	27,526	26,267	1,259
Acquisitions – Periodicals	4,500	3,950	3,950	-
Acquisitions – Audio-Visual	7,000	9,510	8,483	1,027
Acquisitions – Special	1,000	1,000	1,000	-
Utilities & Telephone	23,160	23,160	22,645	515
Repairs & Maintenance	5,500	6,726	6,116	610
Insurance	8,500	8,478	7,433	1,045
Supplies – Collection Main	3,000	2,694	2,205	489
Supplies – Computer	500	584	584	-
Supplies – Office	3,500	3,500	2,773	727
Supplies – Postage	2,100	2,322	2,322	-
Supplies – Promotional	1,000	1,000	729	271
Education	900	900	879	21
Tax Tribunal Refunds	750	750	49	701
Professional & Contracted Services	28,330	27,104	23,999	3,105
Printing & Publishing	600	622	622	-
Bond Debt-Principal	35,000	35,000	35,000	-
Bond Debt-Interest	38,240	38,240	38,240	-
Miscellaneous	150	150	28	122
Buildings & Additions	25,000	25,000	14,119	10,881
Equipment	3,000	3,000	2,186	814
Total Expenditures	<u>321,730</u>	<u>328,216</u>	<u>299,069</u>	<u>29,147</u>
Excess Revenues Over (Under) Expenditures	2,470	(4,016)	73,738	77,754
Fund Balance – April 1	388,758	388,758	388,758	-
Fund Balance – March 31	<u>\$ 391,228</u>	<u>\$ 384,742</u>	<u>\$ 462,496</u>	<u>\$ 77,754</u>

H&S Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



August 7, 2006

Library Board
Hart Area Public Library
Oceana County, Michigan

Dear Board Members:

In connection with our audit of Hart Area Public Library as of and for the year ended March 31, 2006, we offer the following comments and recommendations .

Books and Records

We again commend the director and treasurer for the excellent condition which the library accounting records were again presented in this year.

Payroll

It appears that the Board has included all pay within the budget as we recommended last year. We commend the Board and Director for their review of local pay rates to determine reasonable pay as part of the budgeting process for the 2006-2007 year.

Pledges

Pledges Receivable is one of the amounts reported on the Statement of Net Assets which is not reported on the Balance Sheet as of March 31, 2006. This amount is approximately the amount the Library expects to collect in future years from donors based on the pledges made during the capital campaign. As the Library becomes aware of donors who will not likely meet the pledge, this amount will be adjusted for an allowance for doubtful accounts and bad debts will be reported in the Statement of Activities. This will remove the income which was originally reported in the year the pledges were received, until the Library either collects or writes off all pledges.

We appreciate the courtesy extended to us during the course of the audit including the prompt attention to our inquiries. If you have any questions regarding the above matters, please let me know. We look forward to continuing to serve the Hart Area Public Library.

Respectfully submitted,

Jodi DeKuiper, CPA

Jodi DeKuiper, CPA
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